

GENERAL FUND REVENUE ESTIMATES

Overview

For 2005-2006, Adopted General Fund revenue estimates (excluding fund balance) total \$682.8 million; representing a very slight (4.0%) increase from the 2004-2005 Adopted Budget level. General Fund resources, including Fund Balance-Carryover, total \$818.5 million, which is approximately 4.1% above the prior year level.

Estimates for the 2005-2006 beginning fund balance and for over 400 separate General Fund revenue accounts were formulated initially in an October early forecast, which was updated for the 2006-2010 General Fund Five-Year Forecast released in February 2005. These estimates have since been reviewed and revised as appropriate based on additional information that became available since the release of the Forecast.

Estimates for each account are based upon a careful examination of the collection history and patterns as they relate to such factors as seasonality and performance in the economic environment that the City is most likely to encounter in the coming year. Most estimates involve two projections: an estimate for the amount to be collected in 2004-2005 based on year-to-date activity; and an estimate for the increase or decrease in activity or receipts anticipated for 2005-2006. Each source of revenue is influenced by different factors, which are both external (outside of the City's control) and internal.

Revenue estimates for 2005-2006 are summarized below and discussed in detail in the material that follows.

Revenue Category	2003-2004 Actuals	2004-2005 Adopted	2005-2006 Forecast	2005-2006 Adopted	% Change	% of Total
Property Tax	95,648,723	97,915,000	143,996,000	143,996,000	47.1%	17.6%
Sales Tax	130,697,574	128,488,000	135,243,000	135,243,000	5.3%	16.5%
Transient Occupancy Tax	5,711,809	5,845,620	6,450,000	6,450,000	10.3%	0.8%
Franchise Fees	31,712,351	32,162,000	32,678,000	33,138,000	3.0%	4.0%
Utility Taxes	68,454,701	64,803,600	67,844,000	67,844,000	4.7%	8.3%
Licenses and Permits	69,590,521	70,054,677	61,632,272	72,269,830	3.2%	8.8%
Fines and Forfeitures	13,908,555	13,371,471	12,400,000	12,695,000	(5.1%)	1.6%
Rev. from Money and Property	8,312,744	8,474,163	6,094,800	6,217,454	(26.6%)	0.8%
Rev. from Local Agencies	41,862,060	42,147,901	41,147,513	41,928,346	(0.5%)	5.1%
Rev. from State Government	46,316,487	59,003,527	9,509,150	10,892,192	(81.5%)	1.3%
Rev. from Federal Government	2,908,137	5,815,690	298,448	9,854,456	69.4%	1.2%
Departmental Charges	27,349,670	26,976,779	26,446,895	27,366,083	1.4%	3.3%
Other Revenue	16,023,347	23,688,273	6,872,437	19,562,861	(17.4%)	2.4%
Transfers and Reimbursements	90,615,830	77,482,420	90,297,957	95,321,831	23.0%	11.6%
Subtotal	649,112,509	656,229,121	640,910,472	682,779,053	4.0%	83.3%
Fund Balance-Carryover*	159,572,777	130,104,699	39,200,000	135,755,578	4.3%	16.7%
Total General Fund Sources	808,685,286	786,333,820	680,110,472	818,534,631	4.1%	100.0%

* The Fund Balance figure does not include the Reserve for Encumbrances.

Overview (Cont'd.)

When Will the Growth Start?

Once again the most significant challenge the administration faced in formulating a budget for the coming year was projecting the condition of the local economy over the next 15 months. Recent reports confirm the continued accuracy of the overall assumption concerning the local economy used to build the 2004-2005 Adopted Budget -- that the severe downturn experienced over the last three years has bottomed out, but there are still no signs that a real recovery is likely in the immediate future. As a result, collections of our economically sensitive revenues are relatively flat. At the national level, modest growth continues with mixed signals regarding the future of the economy. Rising oil prices and the prospect of interest rates continuing to inch up, along with mixed economic indicators has consumers worrying about a reduced potential for a substantial economic rebound.

As stated above, in the Bay Area, and Silicon Valley in particular, the economic situation continues to remain stable, but with no indication of imminent significant improvement. Local job growth projections continue to be sluggish, steadily rising gasoline prices threaten to impact consumer spending, and there is growing concern that the warnings that California housing prices are unsustainable will prove to be accurate. Although we appear to have reached the bottom of this prolonged economic

downturn, we continue to lag behind the nation in recovery.

In the midst of the numerous signs of a stagnant economy, there are scattered traces of good news. General Sales Tax quarterly receipts have recently experienced some resumed growth with small increases over the last five quarters, after dropping for ten consecutive quarters. Transient Occupancy Tax receipts are also experiencing growth after several years of falling collections. Other economically sensitive revenues, however, remain stubbornly flat. The question that still remains to be answered is how long will it be before we see the return of strong economic growth.

CPI and Consumer Confidence

Nationally, the Consumer Price Index (CPI) has been increasing in recent months causing the Federal Reserve to continue its plan of slowly but steadily increasing interest rates back to historically normal levels. Oil prices are continuing to rise dramatically and show no indication of dropping in the near future. In fact, Alan Greenspan, chairman of the Federal Reserve, stated recently that oil prices and natural gas markets were under the heaviest strain in a generation and suggested that prices might remain high for some time. These higher interest rates and oil prices, combined with the overall increase in consumer prices has worked to keep consumer confidence down.

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

When Will the Growth Start? (Cont'd.)

CPI and Consumer Confidence (Cont'd.)

California consumer confidence also slumped during the first quarter of 2005 according to a poll by the Survey and Policy Research Institute. Strangely, however, the poll also indicated that Bay Area and Silicon Valley consumers displayed increased confidence in their current economic conditions in this same poll, becoming the highest rated in the State after being the lowest during the first quarter of 2004. However, Dr. Miriam Donoho, professor of marketing in the San Jose State University College of Business and director of the California Consumer Confidence Survey, warns: "Consumers throughout the state, are doing worse financially than they were three months and a year ago. Increased gasoline prices and a weak stock market appear to have undercut hopes for better personal financial conditions in the future. People believe prices will continue to rise and so we see a cautious attitude about future spending."

"In recessions past, consumers have spent the nation into recovery. This time, with low interest rates already driving consumers to purchase next year's houses and cars this year, there isn't much more consumers can do. Until business investment picks up across the board, the national economy will continue to lurch along."

UCLA Anderson Economic Forecast

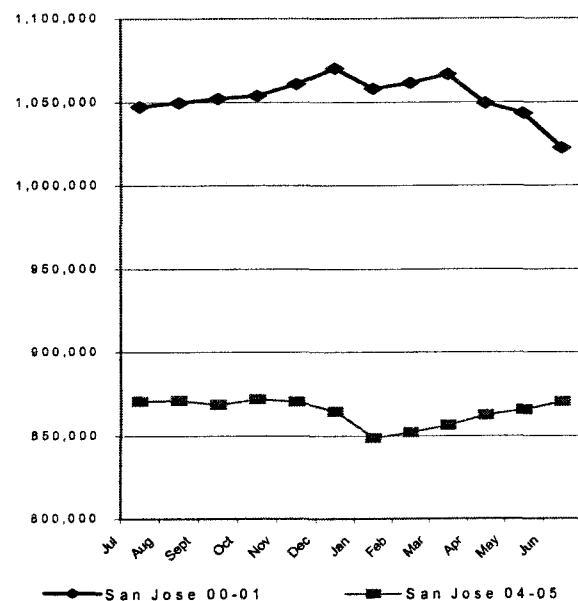
Job Losses and Unemployment

For some time we have held that the employment situation in the Valley is the single most important factor in judging whether, or when, the economy is close to

taking a firmly positive turn. Recent jobs reports have provided mixed news. The June jobs report continued this trend, indicating that although local jobs increased very slightly, by 4,900 jobs, due in part to seasonal increases in construction (1,500 jobs), the comparison over the past 12 months (from June 2004) still shows a net loss of 1,800 jobs.

After increasing to 6.3% in February, the local unemployment rate had fallen to 5.6% by June, but this was still above the State and the national rates of 5.4% and 5.2% respectively.

San José Metropolitan Statistical Area
(Santa Clara County)
Total Wage and Salary Jobs Comparison



The Economic Development Alliance for Business did recently report that in calendar year 2004, San José's unemployment rate decreased by 1.9%, almost twice as much as San Francisco and the East Bay (both down by 1%).

GENERAL FUND REVENUE ESTIMATES

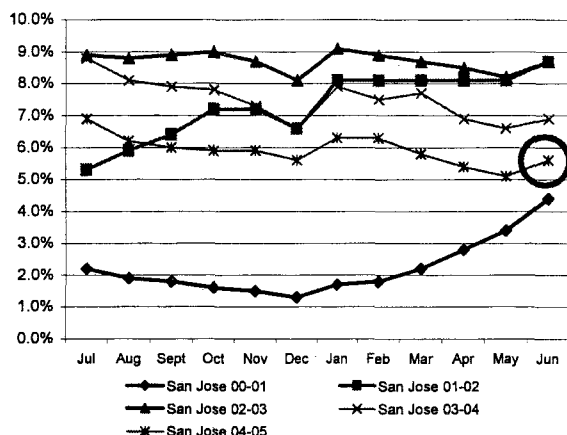
Overview (Cont'd.)

When Will the Growth Start? (Cont'd.)

Job Losses and Unemployment (Cont'd.)

This may not be quite the positive sign it may appear to be however. The reason San José's rate dropped in comparison to San Francisco and the East Bay is that the San José area suffered the loss of 20,800 people from its labor force during the period, while San Francisco actually increased its labor force by 9,500 and the East Bay added 11,700 workers.

San José Metropolitan Statistical Area
(Santa Clara County)
Unemployment Rate Comparison



Clearly, to the extent we are correct in presuming that the performance of the job market is a leading indicator of economic recovery, there is still little basis to predict that a local economic recovery of any significant scale is about to commence.

State Budget Impact

In exchange for State support of Proposition 1A, Property Tax receipts were reduced in 2004-2005 and are scheduled to be reduced in 2005-2006 by the amount determined to be the City's contribution to the State budget-balancing plan (\$11.1 million each year). This

document includes the impact of this \$11.1 million reduction in 2005-2006.

2005-2006 General Fund Revenue

As stated previously, given the continuing local fiscal uncertainty, the most significant challenge faced by the Administration in developing this budget was to project how a continued weakened economy would likely affect collections in the City's economically sensitive revenue categories (e.g., Property Tax, General Sales Tax, Transient Occupancy Tax, development-related revenue, etc.). Prior to 2001-2002, these revenues had experienced tremendous growth, benefiting from the nation's longest economic expansion in U.S. history and the strength of Silicon Valley's technology sector. During that period, the General Fund experienced average annual growth of almost 8.0% due to the strong performance in these categories.

Through the first three quarters of 2004-2005 (the data available to us when these revenue estimates were formulated), performance of our economically sensitive revenue categories reflected the ongoing weakness in our economy. Fortunately, however, the revenue estimates included in the 2004-2005 General Fund budget had correctly assumed that although revenues would end the nearly four year fall-off in City collections, they would experience little to no growth. As a result, overall collections in the General Fund actually performed above budgeted levels.

As stated above in formulating the 2005-2006 revenue estimates, the key underlying assumption for the economically sensitive General Fund revenues was for the continuation of virtually the same little to no growth pattern experienced during 2004-2005 for at least another year.

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

2005-2006 General Fund Revenue (Cont'd.)

When analyzing the City's General Fund revenues, however, it is important to remember that only approximately half of the categories are tied directly to the performance of the economy. The remaining areas, while impacted by overall economic performance, are driven by other factors. For instance, growth in the Utility Tax and Franchise Fee categories is typically more heavily impacted by rate changes than economic growth. Collections from local, State and federal agencies are driven by the grant and reimbursement funding available. Because these revenue sources do not track directly with the performance of the economy, they can act as a buffer during an economic slowdown, easing the impact of a drop in the economically sensitive categories.

Revised General Fund Forecast

In the time between the issuance of our February Forecast and the Proposed Budget, the Budget Office continued to review and update estimates for revenue collections for the coming year. A number of the revenue estimates presented in the February Forecast were, therefore, revised in the Adopted Budget to reflect the latest information available. The net result of these revisions was an upward adjustment of \$4.3 million to the February Forecast total, from \$675.8 million to \$680.1 million. Key revisions included:

- The Property Tax estimate was decreased by \$500,000 to reflect lowered expectations for SB 813 revenue collections.
- The Transient Occupancy Tax estimate was increased by \$312,000 based on the

performance of the first two quarters of 2004-2005. Collections were tracking slightly higher than originally anticipated resulting in a slightly higher base for the growth expected in 2005-2006.

- The Licenses and Permits category estimate was increased by \$499,000 mainly to reflect changes in the revenue estimates for the Fire and Building Fee Programs and some minor adjustments to miscellaneous fees and charges (\$1.2 million), offset by lower expectations related to Disposal Facility Tax collections (\$500,000), and some minor net zero reclassifications between revenue categories (\$161,000) to recategorize the revenues received from animal services activities.
- The Use of Money and Property estimate was decreased by \$500,000 to reflect the expectation that we would experience lower average cash balances during the year.
- The Revenue from Local Agencies estimate was decreased \$1.3 million to reflect a recent downward adjustment to the method of calculating the Water Pollution Treatment Plant In-Lieu Fee (\$1.1 million), and a decrease (\$140,000) to reflect minor net zero reclassifications between revenue categories to more accurately reflect the revenues received from animal services activities. The Departmental Charges estimate was increased by \$299,000 based on an increase to reflect minor net zero reclassifications between revenue categories (\$301,000) to recategorize the revenues received from animal services activities, offset by minor reductions for lowered expectations related to Departmental fees and charges (\$2,000).

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Revised General Fund Forecast (Cont'd.)

- The Other Revenue estimate was decreased by \$3.0 million to reflect the loss of State Booking Fee reimbursements (\$2.5 million), and lowered expectations for Arena Management revenue (\$500,000). (In budget actions last year, the State Legislature maintained reimbursement to cities for booking fees for 2004-2005. At the same time, however, they eliminated this subvention for future budget years.)
- Due primarily to technical adjustments, the Transfers and Reimbursements category was increased by \$3.5 million. The overhead reimbursement increased by a net \$1.5 million, reflecting an accounting change to reimburse capital-related staff costs through the overhead rate rather than by direct charge to capital funds. This will change reimbursement for staffing in the City Manager's Office (CIP Action Team and Budget Office), the Information Technology Department and the Finance Department. This upward adjustment was partially offset by a reduction in the capital activity estimates that generate this revenue. The reimbursement from special and capital funds for their share of the operation and maintenance costs of the new City Hall (\$2.0 million) is also reflected. In addition, a decrease to the Municipal Water System Rate of Return (\$5,000) as a counter-balancing transaction to the related increase in Municipal Water System overhead is included.
- The \$5.0 million increase in Beginning Fund Balance reflected a final review of all the elements of the 2004-2005 revenues,

which found that 2004-2005 net changes in revenues should end the year approximately \$5.0 million higher than forecasted in February. The main components of this net change were related to higher than originally expected receipts of Sales Taxes, Transient Occupancy Taxes, and Telephone Utility Taxes.

The changes from the February Forecast were incorporated into the revised Forecast contained in the Proposed Budget as summarized in the following chart, and represented a net increase of approximately \$4.3 million:

<u>Category</u>	<u>Adjustment</u>
Property Tax	\$ (500,000)
Transient Occupancy Tax	312,000
Licenses & Permits	498,872
Use of Money and property	(500,000)
Rev. from Local Agencies	(1,267,850)
Departmental Charges	298,854
Other Revenue	(3,022,097)
Transfers & Reimbursements	3,488,716
<u>Beginning Fund Balance</u>	<u>5,000,000</u>
Total	\$ 4,308,495

Changes from Forecast to Adopted Budget

From the Revised Forecast estimate of \$680.1 million, additional resources totaling \$138.4 million were added as part of the revisions included in the final Adopted Budget, resulting in an adopted revenue estimate total of \$818.5 million. The components of the \$138.4 million increase can be detailed as follows: rebudgets from 2004-2005 (\$91.6 million); higher revenue estimates (\$22.4 million); and the liquidation of unspent 2004-2005 reserves and Fund Balance-Carryover (\$24.4 million).

GENERAL FUND REVENUE ESTIMATES

Overview (Cont'd.)

Changes from Forecast to Adopted Budget (Cont'd.)

The largest portion of the increase (\$91.6 million or 66%) was not the result of revised estimates, but rather was generated from rebudgeting projects and/or revenues from 2004-2005 to 2005-2006.

The largest part of the revenue estimate adjustment reflected a series of adjustments to reimbursement amounts to fund a variety of local, State, and federal grant programs. Also included in this area was the inclusion of the Cardroom Business Tax estimate (\$8.5 million), that is treated by Council direction as a one-time revenue source for budgeting purposes and, therefore, not included in the Base budget Forecast. Additionally, included in the budget strategy was: \$1.0 million from a business tax amnesty program, and an increase in transfers from other funds of \$5.1 million. The remaining revenue estimate revisions were a series of smaller adjustments to transfers and reimbursements from other funds and agencies for (or generated from) specific augmentations. These items are described in more detail throughout this section of the document.

A portion of the change in the 2004-2005 ending/2005-2006 beginning fund balance category reflects the liquidation of unspent 2004-2005 reserves (\$24.4 million), including the 2005-2006 Future Deficit Reserve (\$12.5 million), a portion of the Economic Uncertainty Reserve (\$10.4 million), use of a portion of the Enhanced Park Maintenance Reserve (\$1.0 million), and the use of development related fee reserves (\$0.4 million).

In general, revenue estimates included in the Adopted Budget are intended to be as exact as possible. The level of certainty of any revenue projection, particularly when made this far in advance of the actual collection period is, however, obviously less than 100%. As a rule, therefore, where great uncertainty exists concerning any particular revenue source, a degree of safety has been built into the estimate. As always, the 2005-2006 revenue estimates will need to be monitored closely throughout the year.

Following is a discussion by revenue category of the anticipated performance for 2005-2006. See the *General Fund Revenue Descriptions* at the end of this section for a description of selected General Fund revenue sources.

GENERAL FUND REVENUE ESTIMATES

PROPERTY TAX

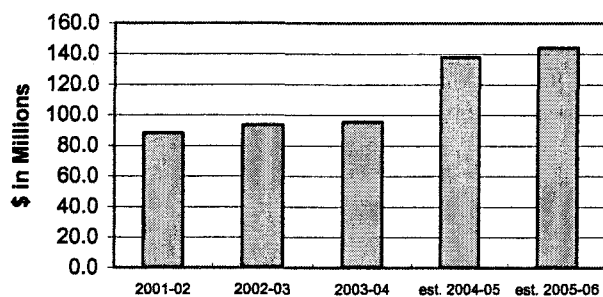
2003-2004 Actual	\$95,648,723
2004-2005 Adopted	\$97,915,000
2005-2006 Forecast*	\$143,996,000
2005-2006 Adopted	\$143,996,000
Percent of General Fund	17.6%
% Change from 2004-2005 Adopted	47.1%

* Revised downward by \$500,000 from the February Forecast, reflecting a slight change in the approximate annualized growth for SB 813 Property Taxes.

Major Categories:

- Current Secured Property Tax
- Current and Prior Unsecured Property Tax
- Current SB 813 Property Tax (retroactive collections back to the point of sale for reassessments of value due to property resale)
- Homeowner's Property Tax Relief Exemption

Collection Trend:



Revenue Estimates:

Despite the economic downturn, City Property Tax collections have surprisingly sustained relatively healthy and steady growth over the past several years, primarily driven by a continued high volume of property

turnovers and increases in home prices. In the recession of the early 1990s, many property owners filed assessment appeals because the market values of properties were less than the assessed values. During the mid-1990s, these values were restored as market conditions improved.

With the robust housing market, the current economic downturn has not produced the same results. However, if the local economy does not improve for a significant period of time, we are still concerned that we could see a drop in real estate prices and an associated increase in the number of downward assessments either proactively performed by the County Assessor or the number of appeals filed independently by property owners. We are also concerned by the increasing worry that we are experiencing a "Housing Bubble" as first identified by the UCLA's Anderson School of Management's forecast beginning almost two years ago. Increasing numbers of economists, including Allen Greenspan, are expressing concerns we may be approaching a housing bubble burst similar to the Tech bubble burst of four years ago. However, we have not yet seen signs of any slowdown in the residential market place as home prices continue to rise even in the face of economic uncertainties.

GENERAL FUND REVENUE ESTIMATES

Property Tax (Cont'd.)

Also of note in this category is the precipitous leap in this revenue category when compared to 2003-2004 actuals. As mentioned over the course of the year in the Monthly Financial Reports (MFR), the largest portion of this increase is the result of the State budget related MVLFF Swap that resulted in the permanent conversion of MVLFF revenue to Property Tax revenue. After adjusting for the impact of this swap, the 2005-2006 Adopted Budget revenue estimates for Property Tax actually project an approximately 4.7% overall increase in the growth levels over the 2004-2005 year-end estimate (\$138.0 million). This estimated growth rate is primarily driven by expected growth in Secured Property Tax, offset by declines in Unsecured Property Tax and SB 813 receipts.

The following section briefly describes the general assumptions used to develop Property Tax revenue estimates by major category.

Secured Property Tax

Approximately 90% of the City's Property Tax revenue is generated from Current Secured Property Taxes. The schedule utilized by the County Assessor for these taxes is based on the value of property assessed on January 1, 2005 and is for the period of July 1, 2005 through June 30, 2006.

Based on preliminary information from the County, it was estimated that the Current Secured Property Tax growth rate for 2005-2006 would continue to increase, although at a slower rate than experienced in 2004-2005. As mentioned above, the housing market has remained much healthier than we expected given the current economic climate. This budget forecasts a 5% increase in this category for 2005-2006, bringing total receipts to

\$128.9 million. The 2005-2006 growth rate of 5.0% is still below that anticipated for 2004-2005 (7.0%) as well as those actually achieved in 2003-2004 (7.1%), 2002-2003 (7.9%), 2001-2002 (8.3%), 2000-2001 (9.1%), 1999-2000 (12.0%), 1998-1999 (11.1%), and 1997-1998 (6.5%).

Unsecured Property Tax

The second largest revenue source in this category is Current and Prior Unsecured Property Taxes. Growth in this area is driven by increases in the value of personal property, typically equipment and machinery used by business and industry for manufacturing and production. Over the last decade, performance in this category has been volatile, ranging from a decrease of 12.7% in 1993-1994 to an increase of 15.0% in 1997-1998. The Adopted Operating Budget estimate of \$10.3 million assumes another decrease (2.0%) in Unsecured Property Tax collections from anticipated 2004-2005 year-end receipts. This is a significantly lower drop than that anticipated for 2004-2005 (down 11.2%), 2003-2004 (down 13.9%), but approximately the same as the 2002-2003 drop (down 2.0%) and a large change from the healthy growth experienced in the boom years: 2001-2002 (26.6%), 2000-2001 (13.0%), 1999-2000 (2.8%), 1998-1999 (8.3%), 1997-1998 (15.0%) and 1996-1997 (12.1%).

The projected 2005-2006 decline of 2.0% in Unsecured Property Tax reflects the continued impact of the recession. It should be noted, however, that this estimate does assume that the County Assessor will not be taking any preemptory actions to change the depreciation schedules used to value major business equipment items. Due to the volatility in collections for the past several years, this revenue source will require continued close monitoring in 2005-2006.

GENERAL FUND REVENUE ESTIMATES

Property Tax (Cont'd.)

SB 813 Property Tax (Property Resale)

The SB 813 Property Tax component represents the retroactive collection of taxation on reassessed valuation from the period of resale to the time that the Assessor formally revalues the property. It is estimated that collections in 2005-2006 will total \$3.6 million, a decline from the anticipated 2004-2005 year-end level of \$4.1 million. Next year's estimate assumes a moderate decline in property turnovers due to rising interest rates and the impact of the recession as well as smaller increases in home prices from the

current all time high levels. Included in the 2005-2006 estimate is a \$500,000 downward adjustment to the forecast revenue estimate to reflect lowered expectations for SB 813 revenue collections.

Homeowner's Exemption

The Homeowner's Property Tax Relief Exemption subvention represents recovery of the tax loss resulting from the per-household exemption granted by current State law. Collections of \$1.1 million are anticipated in 2004-2005. Revenues in this category are expected to remain flat in 2005-2006.

GENERAL FUND REVENUE ESTIMATES

SALES TAX

2003-2004 Actual	\$130,697,574
2004-2005 Adopted	\$128,488,000
2005-2006 Forecast	\$135,243,000
2005-2006 Adopted	\$135,243,000
Percent of General Fund	16.5%
% Change from 2004-2005 Adopted	5.3%

Major Categories:

- General Sales Tax
- Proposition 172 Half-Cent Sales Tax (Public Safety Sales Tax)

Distribution of Sales Tax:

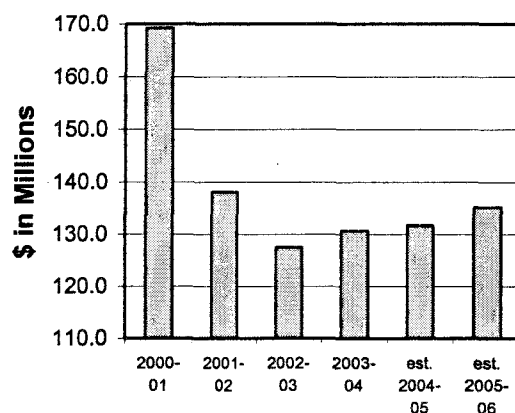
As shown below, the City receives 1.0% of the 8.25% Sales Tax collected for items sold in San José. In addition, the City receives a portion of the Public Safety Fund (Proposition 172) Sales Tax collected statewide.

Agency	<u>Distribution Percentage</u>
State of California	5.50%
City of San José	1.00%
Santa Clara County	0.75%
Santa Clara County Transit District	0.50%
Public Safety Fund (Proposition 172)	<u>0.50%</u>
 Total Sales Tax	 8.25%

The City has been impacted by the State budget action known as the "Triple Flip", which affects the timing of actual sales tax receipts. As part of the Proposition 57 State fiscal recovery funding mechanism (passed by the voters in March 2004), starting July 1, 2004, 0.25% of the City's one percent Bradley-Burns sales tax has been temporarily

suspended and replaced dollar-for-dollar with property tax revenue (Primarily ERAF). This action is to last only for the life of the bonds (currently estimated at five to ten years). The City will, however, continue to record the replacement property tax revenues as sales tax receipts because the growth formula for these receipts are tied to sales tax and because this action is considered a temporary property tax in lieu of sales tax.

Collection Trend:



Revenue Estimates:

General Sales Tax

From the middle 1990s through 2000-2001, the City enjoyed very strong growth in Sales Tax collections, reflecting exceptionally favorable economic conditions within Silicon Valley as well as both State and nation-wide.

GENERAL FUND REVENUE ESTIMATES

Sales Tax (Cont'd.)

General Sales Tax (Cont'd.)

Economic conditions have, of course, changed dramatically with the precipitous decline in the local economy. Over the past several years the Sales Tax category, along with several other economically sensitive revenue sources (e.g., Transient Occupancy Tax, development-related fees, Construction and Conveyance Tax, etc.), has suffered a steep decline in collections from the peak in 2000-2001.

The first half of 2004-2005 experienced a gross increase of approximately 6%, however, the City's Sales Tax consultants, MBIA MuniServices, provided information that suggested that this news be viewed with some caution. As was reported in the Monthly Financial Reports (MFR) throughout the year, a portion of this increase was related to one-time adjustments which when taken into account indicated an adjusted ongoing growth level of approximately 3.0%. For the remainder of 2004-2005, 2% growth over the same quarters in 2003-2004 was estimated.

In keeping with our overall assumption for

the economic environment in the Valley, for 2005-2006, the General Sales Tax estimate of \$130.9 million assumes slow growth of 2% over the 2004-2005 estimate.

The volatility in the City's collection experience for the past four years makes forecasting the General Sales Tax category a challenging task. Consistent with past years, therefore, Sales Tax Collections will be carefully monitored during the year and the status reported to the City Council through the MFR.

Public Safety (Proposition 172) Sales Tax

The Public Safety (Proposition 172) Sales Tax is a ½-cent sales tax collected by the State and distributed to counties and cities. The City of San José receives a percentage of this allocation. The 2005-2006 Adopted Budget estimate for Proposition 172 Sales Tax of \$4.3 million assumes flat growth from the estimated 2004-2005 year-end collection levels.

The growth rate for this category is slightly lower than the estimate for the General Sales Tax category because there is a different basis for the allocation of these funds.

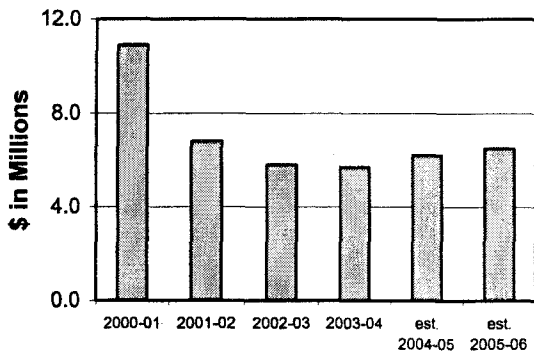
GENERAL FUND REVENUE ESTIMATES

TRANSIENT OCCUPANCY TAX

2003-2004 Actual	\$5,711,809
2004-2005 Adopted	\$5,845,620
2005-2006 Forecast*	\$6,450,000
2005-2006 Adopted	\$6,450,000
Percent of General Fund	0.8%
% Change from 2004-2005 Adopted	10.3%

* Revised upward by \$312,000 from the February Forecast, reflecting a slight change in the approximate annualized growth for transient Occupancy Taxes.

Collection Trend:



Revenue Estimates:

The 2005-2006 Adopted Budget estimate for the General Fund's (4.0%) share of the Transient Occupancy Tax assumes growth of 4.0% in revenues over a 2004-2005 year-end estimate of \$6.2 million.

Growth in this category had been extremely strong prior to 2001-2002. That year, however, saw the beginning of a precipitous decline that continued through the end of 2003-2004, as the result of the combined impact of the general deterioration in

economic conditions along with the aftermath of September 11. The downward slide included a 14.9% decline in 2002-2003 collections with a further decline (1.5%) in 2003-2004. This fall-off was a significant departure from the experience of the mid to late 1990 years. With the exception of a moderate increase of slightly over 4.0% in 1998-1999, growth in this category ranged from 13.0% to 21.0% between 1993-1994 through 2000-2001.

This budget estimated that 2004-2005 would experience a relatively robust increase of 8.5% over the extremely depressed levels experienced in the last few years. As a result of stronger than anticipated performance in 2004-2005, the 2005-2006 final forecast estimate was increased by \$312,000 from the February forecast estimate. For 2005-2006 the Adopted Budget assumes a flattening out of the growth rate with 4.0% growth over the currently estimated 2004-2005 receipts, reflecting mostly the impact of an expected increase in the number of available rooms.

GENERAL FUND REVENUE ESTIMATES

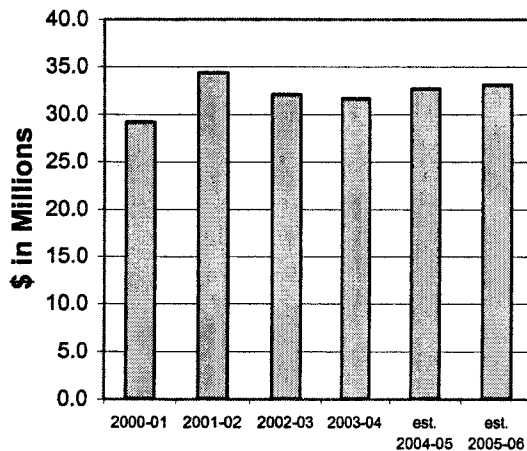
FRANCHISE FEES

2003-2004 Actual	\$31,712,351
2004-2005 Adopted	\$32,162,000
2005-2006 Forecast	\$32,678,000
2005-2006 Adopted	\$33,138,000
Percent of General Fund	4.0%
% Change from 2004-2005 Adopted	3.0%

Major Categories:

- Electricity, Gas and Water Utility Services
- Commercial Solid Waste
- Cable Television
- City-Generated Towing
- Nitrogen Pipelines

Collection Trend:



Revenue Estimates:

Electricity, Gas, and Water Utility Services

The 2004-2005 Franchise Fees for electricity and gas services provided by Pacific Gas & Electric (PG&E) were based upon the proceeds of that company in the calendar year 2004. Final accounting for the preceding

calendar year takes place in late April of each year.

The 2005-2006 Adopted Budget estimate for both the Electricity and Gas Franchise Fees was based upon an examination of utility tax rate changes, industry actions, collection patterns and their correlation to franchise fee receipts.

In 2005-2006, the Electricity Franchise Fee revenue estimate totals \$13.5 million, which is slightly above the 2004-2005 year-end estimate of \$13.4 million. The anticipated small increase in City proceeds reflects an expected slight increase in consumption. The Gas Franchise Fee estimate of \$3.1 million is expected to be flat when compared to the estimated 2004-2005 collections level, reflecting presumed flat consumption and no further rate increases from the current higher than usual rates. It should be noted, however, that actual collections in the Gas Franchise Fee area are subject to significant fluctuations from the impact of weather conditions and/or rate changes.

Water Franchise Fee collections are anticipated to experience growth of 2% over 2004-2005 estimated levels in 2005-2006 with a projection of \$202,000. As with the Gas Franchise Fees, collections in this area can vary based on the impact of the weather conditions that may influence water usage.

GENERAL FUND REVENUE ESTIMATES

Franchise Fees (Cont'd.)

Commercial Solid Waste

For 2004-2005, Commercial Solid Waste Franchise Fees were anticipated to reach \$10.2 million. This amount reflects an expected increase of approximately 10.8% from 2003-2004 actual receipts. From this point, in the Adopted Budget collections are projected to grow by 4.0% in 2005-2006 to \$10.7 million as a result of an approved increase to the Franchise Fee portion of the Commercial Solid Waste (CSW) fee. This portion of the fee was increased by \$0.15 to \$3.49 per cubic yard, which brings the CSW total fee (Franchise and AB939) to \$3.99 per cubic yard. This budget action is expected to generate \$460,000.

Cable Television

The 2005-2006 Adopted Budget estimate for Cable Television Franchise Fee revenue of \$4.4 million represents a drop of 1.0% from the 2004-2005 year-end estimate of \$4.5 million based upon a review of past and current collection patterns.

City-Generated Towing and Nitrogen Pipeline

Consistent with current year experience, City-Generated Towing Franchise Fee revenues are expected to total \$1.2 million in 2005-2006, which is consistent with the year-end estimate.

Proceeds from Nitrogen Pipeline Franchise Fees are estimated to be \$60,000 in 2005-2006, which is in line with the annual collection pattern for this revenue.

GENERAL FUND REVENUE ESTIMATES

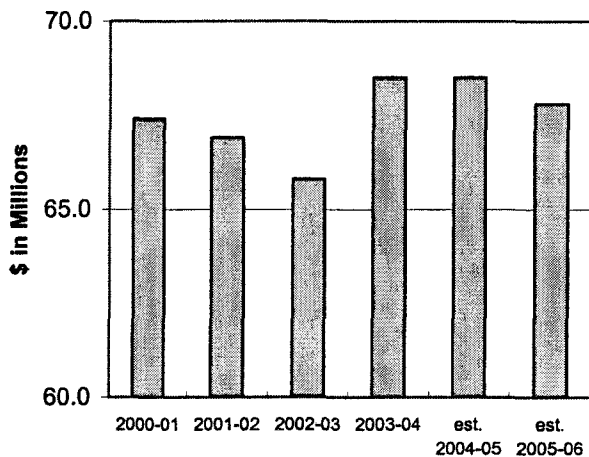
UTILITY TAX

2003-2004 Actual	\$68,454,701
2004-2005 Adopted	\$64,803,600
2005-2006 Forecast	\$67,844,000
2005-2006 Adopted	\$67,844,000
Percent of General Fund	8.3%
% Change from 2004-2005 Adopted	4.7%

Major Categories:

- Electricity Utility Tax
- Gas Utility Tax
- Water Utility Tax
- Telephone Utility Tax

Collection Trend:



Revenue Estimates:

Electricity Utility Tax

For 2004-2005, Electricity Utility Tax revenue of \$32.2 million was anticipated to be flat when compared to the 2003-2004 actual collection levels, but slightly above the 2004-2005 adopted estimate of \$31.5 million. This

level of collection primarily reflected the impact of PG&E's emergence from bankruptcy that held rates relatively constant for the past year.

In 2005-2006, collections are estimated at \$32.6 million, reflecting anticipated growth of 1% over the 2004-2005 estimated collections based on a slight increase in consumption.

Gas Utility Tax

In the Gas Utility category, it was anticipated that we would receive approximately \$8.0 million in 2004-2005, which is significantly above the Adopted estimate of \$6.0 million and slightly above the historically high 2003-2004 year-end receipts of \$7.9 million. The spike in gas prices that started in 2002-2003, eased up for a short time at the end of 2003-2004 before increasing again, and is not expected to return to a more historically lower price range at least until sometime late next year, which coupled with presumed flat consumption is anticipated to result in flat 2005-2006 receipts of \$8.0 million.

Water Utility Tax

The 2005-2006 estimate for Water Utility Taxes of \$7.4 million assumes growth of approximately 6.0% over the estimated 2004-2005 collection level of \$6.9 million. This growth expectation reflects the impact of an anticipated increase in wholesale water rates.

GENERAL FUND REVENUE ESTIMATES

Utility Tax (Cont'd.)

Water Utility Tax (Cont'd.)

It should be noted that this category is also subject to fluctuations based on weather conditions.

Telephone Utility Tax

The 2005-2006 estimate for Telephone Utility Taxes of \$19.9 million, although above the 2004-2005 adopted estimate of \$18.9 million, is below the 2004-2005 year-end estimate. The anticipated drop is primarily due to a presumed decline in landlines due to increased use of alternatives such as Voice Over Internet Protocol (VOIP) and lower overall

consumer demand related to local economic conditions and changing habits regarding the number of land phone lines maintained by households. The 2004-2005 growth in this area was almost entirely due to significant growth in cell phones. The increase in cell phones is expected to slow slightly, with lower growth expected in 2005-2006. It should be noted, however, that this revenue source has proven to be particularly volatile as technology continues to evolve and we will be monitoring developments carefully and return to Council with an update if future changes indicate an adjustment is warranted. In addition, included in the 2005-2006 amount is an estimate of \$490,000 to be received from Telephone Utility Tax compliance reviews administered by the Finance Department.

GENERAL FUND REVENUE ESTIMATES

LICENSES AND PERMITS

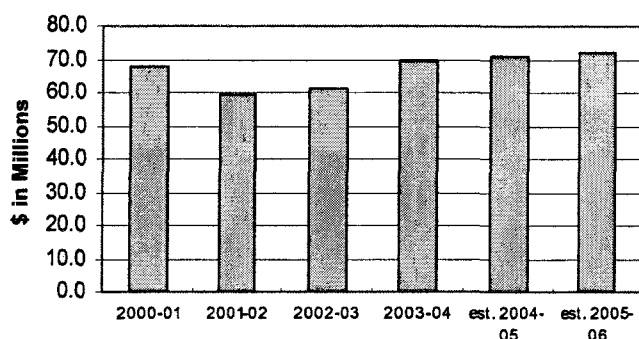
2003-2004 Actual	\$69,590,521
2004-2005 Adopted	\$70,054,677
2005-2006 Forecast*	\$61,632,272
2005-2006 Adopted	\$72,269,830
Percent of General Fund	8.8%
% Change from 2004-2005 Adopted	3.2%

* Increased by \$498,872 from the February Forecast to reflect a revised estimate related to Fire & Building Fee programs, decrease in Disposal Facility Tax, and net zero reclassifications.

Major Categories:

- Business Tax
- Cardroom Tax
- Disposal Facility Tax
- Fire Permits
- Building Permits
- Miscellaneous Other Licenses and Permits

Collection Trend:



Revenue Estimates:

Business Tax

The 2005-2006 revised forecast estimate for General Business Tax totals \$13.0 million, reflecting a slightly less than 1% increase over the 2004-2005 year-end estimate before approved balancing strategy adjustments. The

Adopted Budget includes an action that is expected to generate additional Business Tax revenue.

Per City Council direction, a Business Tax Amnesty Program related to the collection of the City's business tax, will be implemented in 2005-2006, reflecting a delay from the previous plan to conduct the amnesty program during the 2004-2005 fiscal year. The Program will grant amnesty for the payment of delinquent penalties and interest otherwise due, serving as a mechanism to identify and collect on delinquent business taxes. The Program is expected to generate one-time revenue of \$1 million. It is estimated that a percentage of the businesses participating in the Program will subsequently be added to the annual business tax renewal roles, resulting in projected additional ongoing annual business tax revenue of \$200,000.

With the approved balancing strategy adjustment, the 2005-2006 General Business Taxes revenue is anticipated to be \$14.0 million.

Cardroom Tax

Cardroom Tax collections are anticipated to reach \$8.5 million in 2005-2006. Per previous City Council direction, this revenue was not

GENERAL FUND REVENUE ESTIMATES

Licenses and Permits (Cont'd.)

Cardroom Tax (Cont'd.)

included in the Forecast as it is by policy supposed to be used for one-time purposes only, reflecting City Council direction to discontinue the ongoing reliance on this revenue source. The \$8.5 million was, however, approved to again be allocated on a one-time basis in this budget to help offset the expected General Fund budget shortfall.

Disposal Facility Tax

The 2004-2005 year-end estimate of \$14.8 million for Disposal facility Tax (DFT) collections was flat when compared to 2003-2004 year-end actuals. The 2005-2006 Adopted Budget estimate is \$14.3 million, which reflects no change from the revised forecast, but is 3.1% below the 2004-2005 year-end estimate. The Revised Forecast included a \$500,000 reduction to this revenue category based on more current information. BFI and Waste Management continue to dispute the removal of the Alternate Daily Cover (ADC) exemption that was approved by Council in the 2002-2003 Adopted Budget. Pending a resolution of this dispute, BFI and Waste Management have not been paying amounts related to the alternative daily cover exemption.

Fire Permits

The 2005-2006 Adopted Budget revenue estimate of \$6.5 million represents 4.5% growth from the 2004-2005 year-end estimate.

Approved, as part of this document, is a \$283,000 increase expected to result from restructuring fees in this program to an hourly basis, and establishing new fees for single-family plan review, hazardous materials plan check, and temporary certificate of occupancy processing activities. These changes will

maintain the alignment of staffing and activity levels experienced in the development and non-development sectors.

Building Permits

The 2004-2005 year end estimate of \$23.1 million was approximately 3.8% above 2003-2004 actual year-end receipts, which primarily reflects an increase in fees in 2004-2005. The 2005-2006 Adopted Budget revenue estimate of \$23.1 million represents flat growth from the 2004-2005 year-end estimate with no fee increases. Included in this figure is, however, a \$374,000 increase from the forecast base estimate to bring expected revenues in line with anticipated costs.

Miscellaneous Other Licenses and Permits

The 2005-2006 Adopted Budget includes \$5.8 million for a variety of other Licenses and Permits. This figure includes approval for actions that total \$481,000 and represent: a \$154,000 increase from the forecast base in Multiple Housing Permit fee revenue, representing a technical adjustment to reflect the actual revenue expected in this fee program with no change in the fee structure; a \$175,000 increase to the Cardroom Administration Table Fee, reflecting increases in legal services costs; a \$107,000 increase in animal licensing revenue supporting increased spay/neuter surgeries in the new Animal Care Center spay/neuter clinic; and several other minor adjustments.

Also, included in the 2005-2006 estimate is a \$161,000 decrease incorporated into the revised forecast base, reflecting a net zero reclassification between the Licenses and Permits, Revenue from Local Agencies and Departmental Charges revenue categories to more accurately reflect the revenues received from animal services activities.

GENERAL FUND REVENUE ESTIMATES

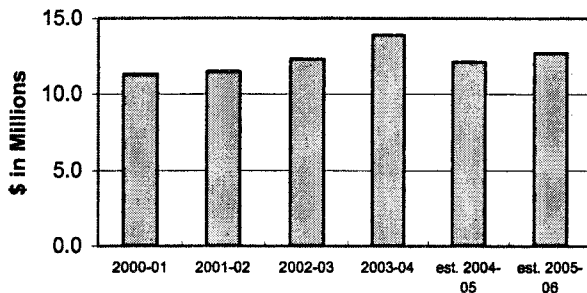
FINES, FORFEITURES, AND PENALTIES

2003-2004 Actual	\$13,908,555
2004-2005 Adopted	\$13,371,471
2005-2006 Forecast	\$12,400,000
2005-2006 Adopted	\$12,695,000
Percent of General Fund	1.6%
% Change from 2004-2005 Adopted	(5.1%)

Major Categories:

- Vehicle Code Fines
- Parking Fines
- Municipal Code Fines
- Business Tax and Cardroom Penalties
- Administrative Citation Program
- Other Fines and Penalties

Collection Trend:



Revenue Estimates:

For 2005-2006, overall collections in this category are expected to increase 4.5% from 2004-2005 year-end projections (Year-end projections for this category are well below the Adopted Budget total). Following is a discussion of the major components of this category.

Vehicle Code and Municipal Court Fines

In 2005-2006, Vehicle Code Fines are estimated at \$2.5 million and Municipal Court Fines are expected to reach \$850,000. These collection levels are consistent with the 2004-2005 year-end estimates.

Parking Fines

In 2004-2005, anticipated collections of \$7.0 million are expected to be well below the Adopted Budget estimate of \$8.0 million. Citation estimates adopted for 2004-2005 assumed significant growth from the prior year. However, actual citation issuance in 2004-2005 lagged behind aggressive projections as a result of a policy change to not conduct proactive nighttime enforcement in neighborhoods, reduced staffing due to a higher than normal rate of disabilities, and delay in implementation of the new parking facilities patrol program.

A modest increase in the penalty for meter parking violations (\$232,000) was approved for 2005-2006. In addition, a \$3 credit card convenience fee per citation was approved in order to recoup actual costs the City currently pays for processing credit card payments. This fee will be collected by the City's parking citation processing contract provider and will

GENERAL FUND REVENUE ESTIMATES

Fines, Forfeitures and Penalties (Cont'd.)

Parking Fines (Cont'd.)

result in a slight increase in parking citation revenue (\$63,000). This fee will be optional and citation payers will be free to choose to pay by check or in person with no convenience fee. With these adjustments, parking revenues are expected to total \$7.3 million in 2005-2006.

Business Tax and Cardroom Penalties

In the Business Tax Penalties category, collections are anticipated to total \$900,000 in both 2004-2005 and 2005-2006. The scheduled collection of the long-standing delinquent Garden City penalty payment (\$582,900) is once again not included in the

2005-2006 Adopted Budget because it is still not known when or if these payments will be made due to Garden City's continued involvement in bankruptcy proceedings.

Administrative Citation Program

The Administrative Citation Program is projected to generate approximately \$615,000 in 2005-2006, which is flat when compared to the 2004-2005 year-end estimate.

Other Fines and Penalties

The Other Penalties category consists primarily of collections associated with the Code Enforcement Hearings Program. It is anticipated that collections will total \$400,000 in 2004-2005 based on the year-to-date collection level, and no growth is expected for 2005-2006.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM USE OF MONEY AND PROPERTY

2003-2004 Actual	\$8,312,744
2004-2005 Adopted	\$8,474,163
2005-2006 Forecast*	\$6,094,800
2005-2006 Adopted	\$6,217,454
Percent of General Fund	0.8%
% Change from 2004-2005 Adopted	(26.6%)

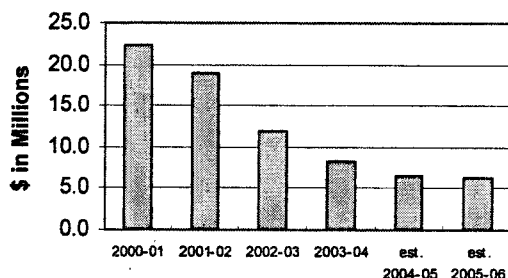
* Revised downward by \$500,000 from the February Forecast to reflect a revised estimate for earnings on investments.

Major Categories:

- General Fund Interest Earnings
- Special Funds Interest Earnings
- Miscellaneous Collections

Collection Trend:

Revenue Estimates:



The largest source of revenue in the Use of Money and Property category is earnings on investments of General Fund and several other funds' cash.

General Fund Interest Earnings

Based upon a review of the Monthly Investment Report data and reinvestment rates, a 2005-2006 average interest yield of 2.8%, applied to an estimated average cash balance of \$137.0 million, was assumed in a

total General Fund interest earnings projection of \$3.7 million. This amount is well below the 2004-2005 Adopted Budget estimate of \$4.1 million, and slightly lower than the year-end estimate of \$3.8 million, but down severely from the 2001-2002 collection level of \$11.9 million. The decrease reflects a slight increase in interest rate earnings as interest rates start rising, applied to a lower average cash balance assumption (\$137.0 million versus \$177.0 million) mainly created by the impacts of State actions described above creating delayed cash receipts for the City.

Special Fund Interest Earnings

The interest income estimate from Special and Capital Funds in 2005-2006, totaling approximately \$1.6 million, is projected to be slightly lower than the 2004-2005 modified budget estimate of \$1.7 million. Though no overall growth is anticipated, adjustments to the individual estimates were made to reflect the activity anticipated in 2005-2006.

Miscellaneous Collections

Based on 2004-2005 projections, it is anticipated that approximately \$900,000 will

GENERAL FUND REVENUE ESTIMATES

Revenue from Use of Money and Property (Cont'd.)

Miscellaneous Collections (Cont'd.)

be generated in 2005-2006 from Property Tax interest, Subrogation Recovery, property rentals, and interest on various executive

loans. This includes the impact of approval to Transfer funding for 1.0 FTE from the Capital Program to the General Fund to provide support in the marketing, negotiation, and administration functions of all Telecommunication related efforts that will generate \$123,000 in additional General Fund reimbursement revenue.

GENERAL FUND REVENUE ESTIMATES

REVENUE FROM LOCAL AGENCIES

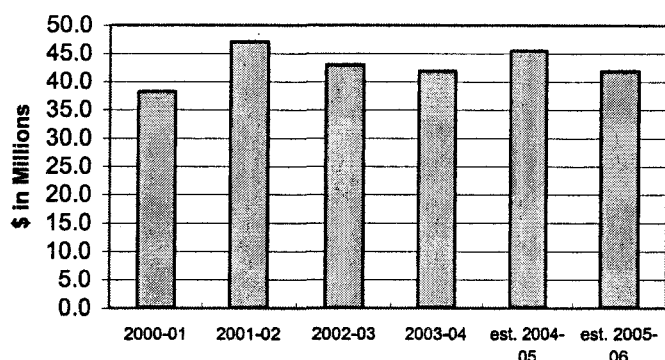
2003-2004 Actual	\$41,862,060
2004-2005 Adopted	\$42,147,901
2005-2006 Forecast*	\$41,147,513
2005-2006 Adopted	\$41,928,346
Percent of General Fund	5.1%
% Change from 2004-2005 Adopted	(0.5%)

* Decreased by \$1.3 million from the February Forecast to reflect updated estimates for in-lieu fees and minor net zero adjustments between revenue categories.

Major Categories:

- Reimbursement from the Redevelopment Agency (Agency) for City Staff/Overhead
- Agency Payment for Convention Center Debt Service and City Capital Expenditures
- Enterprise Fund In-Lieu Charges
- Central Fire District Payments
- Paramedic Program Payments
- Other Miscellaneous Payments

Collection Trend:



Revenue Estimates:

Redevelopment Agency

The Redevelopment Agency reimbursements included in the February Forecast Budget (\$12.8 million) were based upon estimated

2005-2006 costs for City Redevelopment Agency staff, Agency overhead costs based on the 2005-2006 rates, and the projected 2005-2006 cost of the current complement of City support services provided to the Agency. In the Adopted Budget, this base figure has been adjusted upward by approximately \$283,000 to reflect the actual level of reimbursement now anticipated based on recent discussions with the Agency.

This increase in reimbursement is related to approved budget balancing actions that affect the Redevelopment Agency budget by increasing or decreasing (because the Agency reimburses a percent of a reduced or eliminated program) the following services provided by the City through the use of Redevelopment Agency funding: approved reduction in the Small Business Ambassador Program (\$60,000), approved reduction for Community Based Organizations (\$12,000), and reduced reimbursements for support for the Mayor and City Council (\$152,000). These reductions are offset by the establishment of a project in the amount of \$500,000 from the Agency to help support graffiti abatement efforts, and an increase in reimbursements to the Office of the City Clerk for costs to attend and produce minutes of the SJRA Board meetings (\$6,000). The \$500,000 reimbursement for graffiti

GENERAL FUND REVENUE ESTIMATES

Revenue from Local Agencies (Cont'd.)

Redevelopment Agency (Cont'd.)

abatement services will free up General Fund monies approved elsewhere in this document to support childcare program activities managed by the Library Department.

Also included is the continuation of Redevelopment Agency reimbursement for the Convention Center Lease payment of \$13.3 million, which reflects a pre-determined debt payment schedule amount, and reimbursement for City capital expenditures, which enables the City to fund the San José BEST Program, presumed to be continued at \$3.0 million. The San José BEST Program provides funding for schools, community based organizations, and other programs aimed at deterring gang and drug activities and providing employment opportunities for youth.

Enterprise Fund In-Lieu Charges

The approved estimate for Revenue from Local Agencies assumes total Enterprise Fund In-Lieu Charges of \$4.0 million. These payments are received from the Municipal Water System and Water Pollution Control Plant enterprise funds in lieu of franchise fees and other various taxes and fees, which the City would have received if these entities were privately owned. The approved amount includes reductions to the fee for the Municipal Water System to bring the fee in compliance with new ordinance changes restricting the fee amounts that can be paid. Also, reflected in the 2005-2006 estimate is a \$1.1 million decrease that was incorporated into the revised forecast base to reflect a recent downward adjustment to the method of calculation for the Water Pollution Treatment Plant In-Lieu Fee.

Central Fire District and Paramedic Program Payments

The City receives payments from the Central Fire District for emergency services provided to district residents by the San José Fire Department. These payments are presumed to occur at the \$5.0 million level for 2005-2006. This estimate is based on 4.5% growth over the anticipated 2004-2005 receipts to reflect the anticipated increase in Secured Property Tax revenues.

In 2005-2006, estimated payments from the County of \$1.6 million for the Paramedic Program are expected to remain relatively flat compared to the 2004-2005 estimated collection level of \$1.5 million, under the existing agreement with American Medical Response (AMR). This five-year agreement with AMR is coterminous with AMR's agreement with the County of Santa Clara.

Other Miscellaneous Payments

A number of other revenue sources are included in this category, such as the Adult Day Care and Senior Nutrition Programs. For 2005-2006, the base level of revenue was set at the 2004-2005 estimated level.

In 2005-2006, funding of \$283,000 is anticipated from the County of Santa Clara to provide partial funding for the Dr. Roberto Cruz Alum Rock Branch Library and \$213,000 was rebudgeted for the Silicon Valley Energy Partnership.

Also, included in the 2005-2006 estimate is a \$140,000 decrease to the forecast base, which is part of a net zero reclassification between the Licenses and Permits, Revenue from Local Agencies and Departmental Charges revenue categories to more accurately reflect the revenues received from animal services activities.

GENERAL FUND REVENUE ESTIMATES

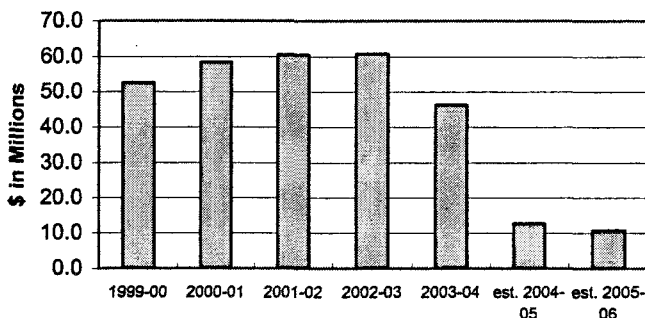
REVENUE FROM THE STATE OF CALIFORNIA

2003-2004 Actual	\$46,316,487
2004-2005 Adopted	\$59,003,527
2005-2006 Forecast	\$9,509,150
2005-2006 Adopted	\$10,892,192
Percent of General Fund	1.3%
% Change from 2004-2005 Adopted	(81.5%)

Major Categories:

- Motor Vehicle and Airplane In-Lieu Taxes
- State Grants

Collection Trend:



Revenue Estimates:

Motor Vehicle and Airplane In-Lieu Taxes

Total revenue from the State is budgeted to drop from \$46.3 million in 2003-2004 to \$12.7 million in 2004-2005. Almost all of this drop, however, reflects lower State Motor Vehicle In-Lieu Tax (MVLFF) payments resulting from 2004-2005 State budget actions. As described previously, due to State budget balancing actions in 2004-2005, the State permanently "Swapped" the City's MVLFF monthly backfill

payments for Property Tax payments received twice a year. The State's action resulted in the permanent conversion of MVLFF revenue to Property Tax revenue. Thus, the backfill amount due to the City will permanently become property tax revenue that will grow based on assessed valuations. As a result, as part of the 2004-2005 Mid-Year Budget Review, City Council approved treating the compensating State revenue as Property Tax in future budgets.

The growth in MVLFF had been extraordinarily strong in past years. In 2005-2006, MVLFF growth is not expected to continue at this strong pace due to increases in interest rates and oil prices that have the auto industry showing reduced profits and sales in some areas. In 2005-2006, modest growth of 2.0% over the 2004-2005 year-end estimate, after adjusting for the 2004-2005 events described above, is expected, for a total of \$5.5 million. This reduced level of revenue reflects the permanent change of the MVLFF backfill amounts to Property taxes and future revenue amounts will be substantially lower than in the past.

The 2004-2005 Airplane In-Lieu fees year-end estimates of \$2.4 million reflect a substantial

GENERAL FUND REVENUE ESTIMATES

Revenue from the State of California (Cont'd.)

Motor Vehicle and Airplane In-Lieu Taxes (Cont'd.)

increase over the \$934,000 collected in 2003-2004. Based on an analysis of collections over time this level of collections is not expected to be repeated and collections for 2005-2006 are estimated at \$0.9 million.

State Grants

Public Library Fund (PLF) SB 358 grant funds are estimated to total \$373,000 in 2004-2005. Based on State budget balancing actions taken during 2004-2005, it is anticipated that 2005-2006 PLF funding will decrease to \$344,000.

Abandoned Vehicle fee revenue of \$710,000 is anticipated in 2005-2006, reflecting flat growth from the current year-end estimate. Also, included in this Adopted Budget is anticipated revenue of \$1.6 million to fund

continuation of the San José LEARNS program; OTS Seat Belt Compliance Mini Grant (\$477,000); OTS Sobriety Checkpoint Grant (\$35,000); OTS DUI/Seat Belt Compliance Grant (\$90,000); OTS Sobriety Checkpoint Mini-Grant (\$32,000); and State Code Enforcement Grant (\$49,000).

To achieve its goals of job and revenue generation in 2005-2006, aggressive implementation of the San José Economic Development Strategy was approved by the City Council, including the addition of four temporary full-time positions and associated non-personal/equipment costs. In 2005-2006, the cost of this initiative will be reimbursed through the receipt of State grant funds of \$500,000.

Also, based on a higher projected activity level for 2005-2006, a \$200,000 upward adjustment was approved for the fee related to traffic maintenance charges reimbursements from the State administered by the Transportation Department.

GENERAL FUND REVENUE ESTIMATES

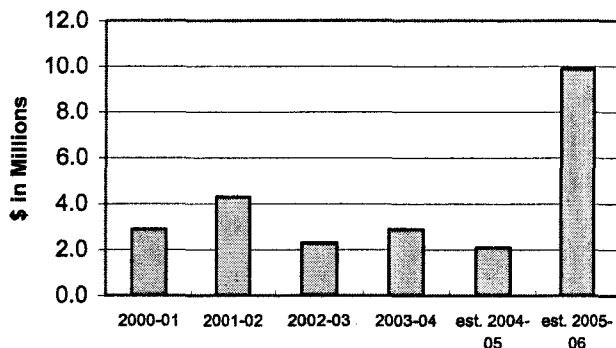
REVENUE FROM THE FEDERAL GOVERNMENT

2003-2004 Actual	\$2,908,137
2004-2005 Adopted	\$5,815,690
2005-2006 Forecast	\$298,448
2005-2006 Adopted	\$9,854,456
Percent of General Fund	1.2%
% Change from 2004-2005 Adopted	69.4%

Major Categories:

- Police-Related Federal Grants
- Other Federal Grants

Collection Trend:



Revenue Estimates:

The revenue in this category is received from various grant programs. The 2005-2006 Adopted Budget only includes those grant proceeds known to be obligated for next year. Among them are the COPS Interoperable Communications Grant (\$4.2 million); Urban Area Security Initiative Grant (\$2.7 million); California 21st Century Community Learning Centers Grants (\$1.3 million); Metropolitan Strike Team Grant (\$616,000); Smart Start Earmark Grant (\$298,000); Internet Crimes Against Children (\$197,000); Weed and Seed Washington Grant (\$175,000); Senior Companion Grant (\$109,000); Retired Seniors Volunteer Program Grant (\$91,000); and Miscellaneous Federal Grants (\$168,000).

GENERAL FUND REVENUE ESTIMATES

DEPARTMENTAL CHARGES

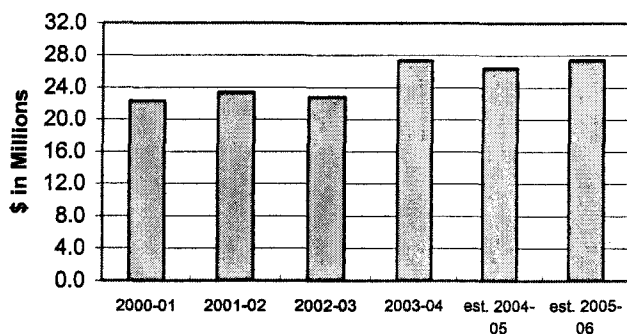
2003-2004 Actual	\$27,349,670
2004-2005 Adopted	\$26,976,779
2005-2006 Forecast*	\$26,446,895
2005-2006 Adopted	\$27,366,083
Percent of General Fund	3.3%
% Change from 2004-2005 Adopted	1.4%

* Increased by \$298,854 from the February Forecast to reflect changes in anticipated Planning and Transportation related fees and charges revenue and net zero revenue category reclassifications.

Major Categories:

- Police Fees
- Public Works Fees
- Transportation Fees
- Library Fees
- Planning Fees
- Parks, Recreation and Neighborhood Services Fees
- Miscellaneous Departmental Fees

Collection Trend:



Revenue Estimates:

Contained in this revenue category are the various fees and charges levied to recover costs of services provided by several City departments. In the 2005-2006 Adopted Budget, estimated departmental charges for

services revenue is up slightly from the 2004-2005 Adopted Budget level and 3.5% higher (\$919,000) than the Revised Forecast level.

The increase in the Adopted Budget in this category is mainly the result of adjustments to various fee programs, including approved increases to various fees designed to address projected activity levels and service level demands in 2005-2006.

This section highlights the major fee programs in this category. A more detailed description of the changes to the various fee programs was provided in the 2005-2006 Proposed Fees and Charges document that was released under separate cover.

Police Fees

The Adopted Budget revenue estimate for the Police Department (\$1.2 million) represents a 1.8% (\$22,000) increase from the Revised Forecast level. This positive variance results from fee revisions throughout the fee program.

Public Works Fees

In 2005-2006, Public Works fees are expected to generate \$7.0 million, which is consistent with the 2004-2005 year-end estimate.

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Public Works Fees (Cont'd.)

The Adopted Budget estimate is approximately \$53,000 lower than the Revised Forecast level for Public Works departmental fees to reflect the actual amount of revenue expected in the upcoming year. The actions included in this budget will serve to balance the revenues and expenditures in the Public Works Development Fee Program.

Transportation Fees

Transportation Departmental charges are expected to generate approximately \$888,000 in 2005-2006. This collection level represents an increase of 4.9% from 2004-2005 estimated year-end receipts. The anticipated increase reflects 2005-2006 estimates (\$139,000) in fee changes that were approved to maintain cost-recovery levels in 2005-2006. Also included in the 2005-2006 estimate is a \$5,000 decrease to the forecast base to bring revenue estimates in line with anticipated costs.

Library Fees

Library Department fees and fines for 2005-2006 are estimated at \$950,000, which is relatively flat when compared to the expected 2004-2005 year-end level. There are no changes in Library fees for 2005-2006.

Planning Fees

The Planning, Building and Code Enforcement Department administers a variety of fees and charges related to the processing of planning permit applications. For 2005-2006, the Planning fee program revenue estimate (\$5.8 million) reflects an anticipated leveling of activity combined with no fee increases, and use of the Planning Fee Reserve (\$265,000) to keep the program at 100% cost-recovery. Also, included in the

2005-2006 estimate is a \$3,000 increase to the forecast base to bring revenue estimates in line with anticipated costs.

Parks, Recreation and Neighborhood Services Fees

Parks, Recreation and Neighborhood Services Department (PRNS) fee collections are expected to reach \$8.4 million in 2005-2006 based on a net combination of current activity projections, loss of revenue associated with approved changes to PRNS departmental operations, and approved fee increases. These fee increases primarily reflect changes approved in conformance with City Council direction to match revenues with program costs in order to maintain cost recovery and include a \$0.50 increase in admissions and additional vending machines at Happy Hollow Park and Zoo (\$114,000); loss of revenue for reductions in the aquatics program (\$55,000); new gym fees for adult and youth sports programs (\$17,000); a combination of fee increases and increases in the number of fee supported programs for the San José Afterschool summer drop-in program (\$15,000); additional animal services revenue (\$32,000); a reallocation of recreation staff to fee activities (\$420,000); and expected fee revenue to support the Young Peoples Theater (\$93,000).

Also, included in the 2005-2006 estimate is a \$301,000 increase from the forecast base, which is part of a net zero reclassification between the Licenses and Permits, Revenue from Local Agencies and Departmental Charges revenue categories to more accurately reflect the revenues received from animal services activities.

Miscellaneous Departmental Fees

Collections of \$3.1 million are anticipated in 2005-2006 from a variety of miscellaneous fees and charges, including \$2.8 million from

GENERAL FUND REVENUE ESTIMATES

Departmental Charges (Cont'd.)

Miscellaneous Departmental Fees (Cont'd.)

the Solid Waste Enforcement Fee (SWEF)
Program. A \$172,000 increase in the SWEF

Program is approved to align revenue with anticipated activity levels with no fee increases. Also included in this category is an increase to photocopy fees for public records (\$3,000) to maintain fees at cost recovery.

GENERAL FUND REVENUE ESTIMATES

OTHER REVENUE

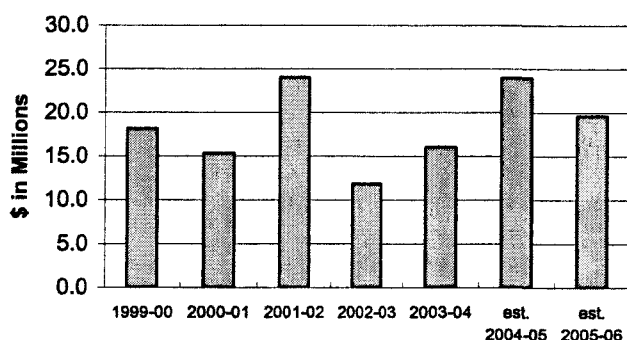
2003-2004 Actual	\$16,023,347
2004-2005 Adopted	\$23,688,273
2005-2006 Forecast*	\$6,872,437
2005-2006 Adopted	\$19,562,861
Percent of General Fund	2.4%
% Change from 2004-2005 Adopted	(17.4%)

* Decreased by \$3.0 million from the February Forecast to reflect the loss of State Booking Fee reimbursements and lowered expectations for Arena Management revenue.

Major Categories:

- HP Pavilion at San José Revenues
- Investment Program Reimbursement
- Sale of Surplus Property
- SB 90 Reimbursements from the State
- Sidewalk Repair Activities

Collection Trend:



Revenue Estimates:

HP Pavilion at San José Revenues

The 2005-2006 estimate of \$2.0 million reflects anticipated payments from the Arena Authority for HP Pavilion at San José parking and rentals, naming rights, and estimated collections for suite revenues, adjusted to assume the loss of funds that would result if the ongoing NHL lockout situation were to

last another year. In 2004-2005, the Sharks organization has provided a level of reimbursement to the City that we believe is well below both the budgeted amount, and the amount the City believes it is owed (\$700,000-\$900,000 less). To be prudent, this budget presumed that the Sharks lockout would not be resolved soon and there will be a significant impact on the amount of revenue the City will receive in 2005-2006. As a result of a more recent review of this situation, a \$500,000 downward adjustment was incorporated into the revised forecast and included in the Adopted Budget.

Investment Program Reimbursement

The 2005-2006 revenue estimate for this category is \$1.7 million based on the estimated costs of this program that will be reimbursed from proceeds on investment earnings.

Sale of Surplus Property and Compensation

The Adopted Budget includes revenue in the amount of \$100,000 associated with the recovery of the costs associated with the management and sale of General Fund surplus property.

GENERAL FUND REVENUE ESTIMATES

Other Revenue (Cont'd.)

Sale of Surplus Property and Compensation (Cont'd.)

Minor adjustments (\$20,000) were also approved for the 2005-2006 fee revenues related to the sale of street name signs, new subdivision traffic control signs, and new subdivision pavement markings administered by the Transportation Department, bringing those categories into alignment with current projections.

SB 90 Reimbursements from the State

Per the passage of Senate Bill 90, enacted January 1, 1973, the State reimburses the City for eligible costs incurred by the City for certain State-mandated programs. Due to State budget cuts, the only remaining reimbursement in 2004-2005 was \$2.5 million for Jail Booking fees. In budget actions last year, the State Legislature maintained reimbursement to cities for booking fees for 2004-2005. At the same time, they eliminated this subvention for future budget years, and limited the amount counties could charge for

booking fees to one-half of administrative costs beginning in 2005-2006. For these reasons, \$2.5 million that was in the February base forecast was eliminated in the revised forecast. With this adjustment, it is expected that the City will receive no SB 90 reimbursements from the State in 2005-2006.

Sidewalk Repair Activity

When the City performs sidewalk repair services for non-owner occupied residences, the property owners reimburse the City for those costs. The 2005-2006 revenue estimate for this category is \$400,000.

Other Miscellaneous Revenue

Included in this category are the Coyote Valley Specific Plan (\$4.8 million); Evergreen Strategy (\$7.2 million); lease revenue for the FMC property (\$830,000); Banking Services (\$800,000); parking revenue (\$270,000) expected to be generated from parking receipts at the new City Hall On-Site Parking Garage; and Security Services (\$50,000).

GENERAL FUND REVENUE ESTIMATES

TRANSFERS AND REIMBURSEMENTS

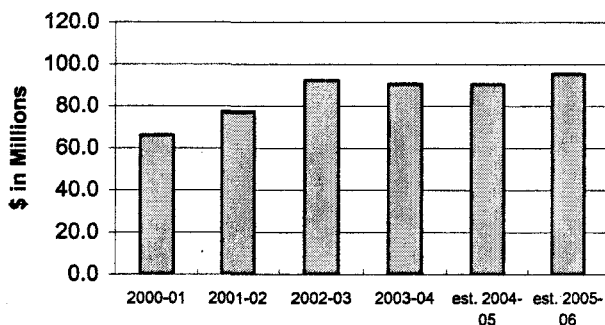
2003-2004 Actual	\$90,615,830
2004-2005 Adopted	\$77,482,420
2005-2006 Forecast*	\$90,297,957
2005-2006 Adopted	\$95,321,831
Percent of General Fund	11.6%
% Change from 2004-2005 Adopted	23.0%

* Increased by \$3.4 million from the February Forecast to reflect changes in overhead rates, an increase in the reimbursements for new City Hall O&M, a reduction of lease costs due to the move to the new City Hall, and a decrease to the Municipal Water Rate of Return.

Major Categories:

- Overhead Reimbursements
- Transfers
- Reimbursements for Services

Collection Trend:



Revenue Estimates:

The Transfers and Reimbursements revenue category is used to account for funds received by the General Fund from other City funds through a combination of means, including overhead charges, reimbursements for services rendered, or as simple transfers.

In total, Transfers and Reimbursements are anticipated to generate approximately \$95.3

million in 2005-2006. This constitutes an increase of 6.7% from the 2004-2005 Modified Budget level. The following is a discussion of the three major subcategories, including detail regarding the net increase approved for 2005-2006.

Overhead Reimbursements

The 2005-2006 Adopted Budget of \$27.6 million is consistent with the revised Forecast level. There were, however, a number of adjustments adding, reducing, and/or transferring position funding within various special funds.

Several changes were approved from the revised Forecast Base for 2005-2006 and involve the following funds:

- **Airport Operations Fund.** A net decrease of \$125,613 was approved to reflect Airport operating efficiencies as part of an overall Airport budget balancing strategy to match 2005-2006 costs with anticipated revenue. Additional descriptions related to these changes may be found in the Aviation Services City Service Area section of this document.

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Overhead Reimbursements (Cont'd.)

- **Community Development Block Grant Fund.** A net decrease of \$22,670 in overhead reimbursements was approved to reflect the elimination of 2 Community Development Block Grant funded positions in Parks, Recreation, and Neighborhood Services. Additional descriptions related to these changes may be found in the Economic and Neighborhood Development City Service Area section of this document.
- **Integrated Waste Management Fund.** An increase of \$15,193 in overhead reimbursements from the expansion of the street sweeping signage was approved. Additional descriptions related to this change may be found in the Environmental and Utility Services CSA section of this document.
- **Low and Moderate Income Housing Fund.** A net decrease of \$5,298 in overhead reimbursements was approved to reflect the conversion of the Housing Action Team Senior Planner to 50% Fund 443 and 50% Planning Fee support. Additional descriptions related to this change may be found in the Economic and Neighborhood Development CSA section of this document.
- **Maintenance District Funds.** A net decrease of \$5,855 in overhead reimbursements was approved to reflect the following changes: a decrease to reflect operating efficiencies for three new pump stations and to continue to maintain and operate Oakmead storm pump station (\$29,417); and an increase to provide additional resources to meet

the operation and maintenance needs of newly constructed landscapes and facilities in the Communication Hill Community Facilities District (\$23,562). Additional descriptions regarding the changes may be found in the Transportation Services CSA section of this document.

- **Sewer Service and Use Charge Fund.** A net decrease of \$14,698 in overhead reimbursements was approved to reflect the following changes: a decrease to reflect Reductions in Pavement Maintenance staffing costs (\$9,368); and a decrease to reflect the elimination of a position in the Planning, Building, and Code Enforcement Department (\$5,330). Additional descriptions related to these changes may be found in the Transportation and the Environmental and Utility Services CSA sections of this document.
- **Storm Sewer Operating Fund.** A net increase of \$57,773 in overhead reimbursements was approved to reflect the following changes: an increase in staffing costs to reflect improved street cleanliness through expanded street sweeping signage (\$11,944); an increase to reflect new storm pump stations maintenance and operation staffing costs (\$18,488); a decrease to reflect reductions in pavement maintenance (\$1,279); an increase to reflect the addition of a Planner I/II for C3 Review (\$14,064); and an increase to reflect staffing resources for implementation of stormwater permit requirements (\$14,556). Additional descriptions regarding the changes may be found in the Transportation and the Environmental and Utility Services CSA sections of this document.

GENERAL FUND REVENUE ESTIMATES

Transfers & Reimbursements (Cont'd.)

Transfers

The 2005-2006 estimate of \$50.3 million reflects the following approved changes:

- A transfer of \$2.5 million from the Construction Excise Tax Fund and \$1.0 million from the Construction and Conveyance Tax Fund as a part of the General Fund budget balancing strategy.
- A transfer of \$1.5 million from the new City Hall construction fund to reflect reimbursement for new City Hall capital costs originally paid out of the General Fund.
- A transfer of \$102,000 from the Storm Sewer Operating Fund to reflect reimbursement for rent of space in the old Martin Luther King Library.

Reimbursements for Services

Reimbursements for services represent the cost to the General Fund for staff and supplies provided on behalf of other City funds.

The largest single source of revenue in this category is reimbursements from the Gas Tax Funds for the cost of City street-related expenses. In 2005-2006, collections from this source are projected at \$17.0 million, reflecting flat growth over the 2004-2005 year-end estimate. This collection level assumes that the recent large increases in gas prices will result in no growth in consumption levels.

The two remaining items in this category are reimbursements from the Assessment District Funds and from the Deferred Compensation Fund. The estimates for these items are \$124,000 and \$391,000, respectively. The Deferred Compensation amount includes approval to increase Deferred Compensation Plan support by \$23,000.

GENERAL FUND REVENUE ESTIMATES

FUND BALANCE

Unexpended/Rebudgeted Earmarked Reserves	\$67,758,533
Expenditure Rebudgets	28,797,045
Unexpended/Rebudgeted Contingency Reserve	24,200,000
Excess Revenue/Expenditure Savings	14,000,000
Liquidation of Prior Year Encumbrances	1,000,000
Fund Balance Subtotal:	\$135,755,578
Reserve for Encumbrances	23,153,602
Fund Balance Total:	\$158,909,180

Estimates for both the unrestricted and restricted (reserves for encumbrances) portions of the 2004-2005 Ending Fund Balance/2005-2006 Beginning Fund Balance, totaling \$158.9 million, are included as part of the 2005-2006 Adopted Operating Budget. The estimate for the encumbrance reserve is set at the 2003-2004 actual level (\$23,153,602). The Adopted Budget includes a matching expenditure amount intended to reflect the corresponding encumbrance appropriations that will be required.

The estimate for the unrestricted portion of the fund balance has been set at \$135.8 million, representing a \$101.6 million total increase from the February Forecast level of \$34.2 million. When the Forecast was developed, the fund balance projection was for a total of \$9.0 million achieved through a combination of additional revenue and expenditure savings; an unexpended Contingency Reserve estimate of \$24.2 million; and \$1.0 million from liquidation of prior year carryover encumbrances.

Since the release of the Forecast, however, changes of \$101.6 million were approved to reflect the following:

- Approval to rebudget \$43.3 million of Unexpended Earmarked Reserves and to use \$24.4 million of Unexpended Earmarked Reserves. The \$24.4 million use of reserves includes: the liquidation of the 2005-2006 Future Deficit Reserve to be used as part of the City's General Fund balancing strategy (\$12.5 million); the use of all of the Economic Uncertainty Reserve (\$10.4 million); the use of a portion of the Enhanced Parks Maintenance Reserve (\$1.0 million); and the use of a portion of the Planning and Public Works Fee Reserves (\$434,000);
- Expenditure Rebudgets of \$28.8 million, the majority of which represent Capital and City-Wide projects that were not completed in 2004-2005; and
- An increase in the expected expenditure savings or revenue surpluses from 2004-2005 (\$5.0 million).